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FROM: Tokyo

TO: Secretary of State

NO: 3431, April 28, 7 p.m.

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At Prime Minister's dinner April 27, Okazaki handed me an informal memorandum dealing with question US import duty on silk scarves saying this matter is very embarrassing in light recent signing FCN treaty. Full text is being forwarded under cover of despatch. Memorandum refers to unbalanced status of Japanese-US trade stating that although Japanese import balance has been covered by special procurement "continued receipt of dollars from such sources can not (repeat not) be relied upon as a sound pattern of trade". Mention is made of importance of silk scarves as a dollar earner with statement that increased duty would be "a heavy blow to the nation's economy". Memorandum refers FCN treaty designed "to induce free flow of goods" and states increased duty "would be a bitter disappointment to us and is likely to give rise to an undesirable situation when the treaty is tabled for ratification at the forthcoming session of the Diet". Reference is also made to Japanese export controls on trade with Communist China and the observation is made that an increase in US duties would strengthen protagonists of trade with Communist China.

The memorandum mentions the importance to Japan of GATT membership and the tariff negotiations incident thereto and urges the US to support early multilateral negotiations, even though it could only agree to binding existing duties. Fear is expressed that failure of the US to negotiate will result in delay by other contracting parties. The Annecy Conference is cited as a precedent for negotiations under a one-year extension of Trade Agreements Act.

Am confident that Japanese Government places greatest importance on US action re tariff on silk scarves and expedition Japanese admission GATT. It may be trite to say this country is in dire need of export markets but declining exports in recent months have served to emphasize the point. I also believe US action adverse to Japanese interests may jeopardize ratification of FCN treaty and stimulate pressure expand trade with Communist China. Increased duty on silk scarves could mark turning point in post-war US-Japanese relations with effects possibly as adverse as pre-war Exclusion Act. Japan is important market for many US products

including cotton

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including cotton, the sale of which Embassy has been urged to attempt to expand. Proposed action on silk scarves will not (repeat not) be helpful in this connection. The Department is well aware that the interest of individual industries require consideration in the light of the general welfare and probable effect of any proposed action thereon. I venture to suggest that silk scarves represent such a case. Would it be possible to recommend to President that Tariff Commission recommendation be held in abeyance pending review and development of US foreign economic policy?

MURPHY

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